

5 KEY TAKEAWAYS

What You Need to Know in the US and Latin America About Franchising and IP

Kilpatrick Townsend Partner [Marc Lieberstein](#), Co-Chair of the firm's Retail & Consumer Goods Industry Team and member of the Firm's Latin American Focus Group, recently joined other thought-leaders on an international panel to discuss differences in franchising that companies may face in the US versus Latin America – "To Franchise, or Not To Franchise, That is the Question: What You Need to Know in the US and Latin America About Franchising and Intellectual Property." This New York State Bar Association Intellectual Property Section event held on November 9th, included Mr. Lieberstein, Gustavo Alcocer (Partner, Olivares, Mexico) Tatiana Campello (Partner, Demarest Advogados, Brazil), and Martha Bonett (Partner, Cavelier Abogados, Columbia).

Key takeaways include:

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Franchising in the US is highly regulated with federal and state laws governing how franchisors can offer and sell franchises. In Latin America, and in particular, Brazil and Mexico franchise laws regarding disclosure to a prospective franchisee are similar to that in the US, whereas in Colombia there is no true disclosure requirement since there is no specific franchise legislation (although in Colombia there are franchise guidelines). These Latin American countries have contract laws and other relationship laws that are protective of the franchisees.

Trademarks are a crucial component of any franchise system in the US, as well as in Brazil, Mexico and Colombia. While trademark registration is not mandated in the US before conducting franchise activity, it is highly recommended because prospective franchisees are less likely to invest in a franchise that does not own a valid trademark registration. In Mexico and Brazil, a franchisor must have, at a minimum, a pending trademark application as a pre-requisite to franchising. In Colombia the trademark must be registered before it can be the subject of a franchise agreement licensing the trademark for franchising purposes.

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The US has 14 states that require franchisors to first apply to register their franchise businesses before offering and selling franchises -- California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin. There are also 23 states called "business opportunity" states that have laws effecting franchise relationships; 6 of those states mandate filing applications/notices prior to offering or selling franchises in those states -- Connecticut, Florida, Kentucky, Nebraska, Texas, and Utah. In Mexico, Brazil, and Colombia there are no pre-application filing requirements, but, after the franchise agreement is signed, it must be recorded in the countries' respective trademark offices for authorization of remittance, tax deduction, and validity.

While the US has relatively stable tax laws on imports, exports, and business income associated with franchise activity, the Brazilian tax regulations are exceedingly complex. And while the Mexico and Colombian tax regulations are less complex, any US franchise business looking to franchise in Brazil, Mexico, or Colombia should take time to consult with local tax professionals to ensure compliance and the best ways to minimize taxes and maximize profit.

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When structuring a franchise agreement between a US franchisor and prospective franchisees in Brazil, Mexico, and Colombia, several important non-monetary considerations should be addressed, including (1) choice of law; (2) forum selection; (3) limitations on liability; (4) liquidated damages; and (5) termination. In particular, if a US franchisor wants US law to govern the franchise agreement, it is advisable to utilize arbitration as the forum for any franchise agreement disputes in Mexico, Brazil, or Colombia. Arbitration is becoming a well-respected forum for cross-border transactions in Latin America. But, if US franchisors are seeking to enforce an arbitration award in Brazil, Mexico, or Colombia, they should be aware that if the local laws or interests do not comply with the US law there is a chance that the local country courts will apply local law.